FEDERAL PRE-ELECTION SUBMISSION 2021

Railway Association of Canada

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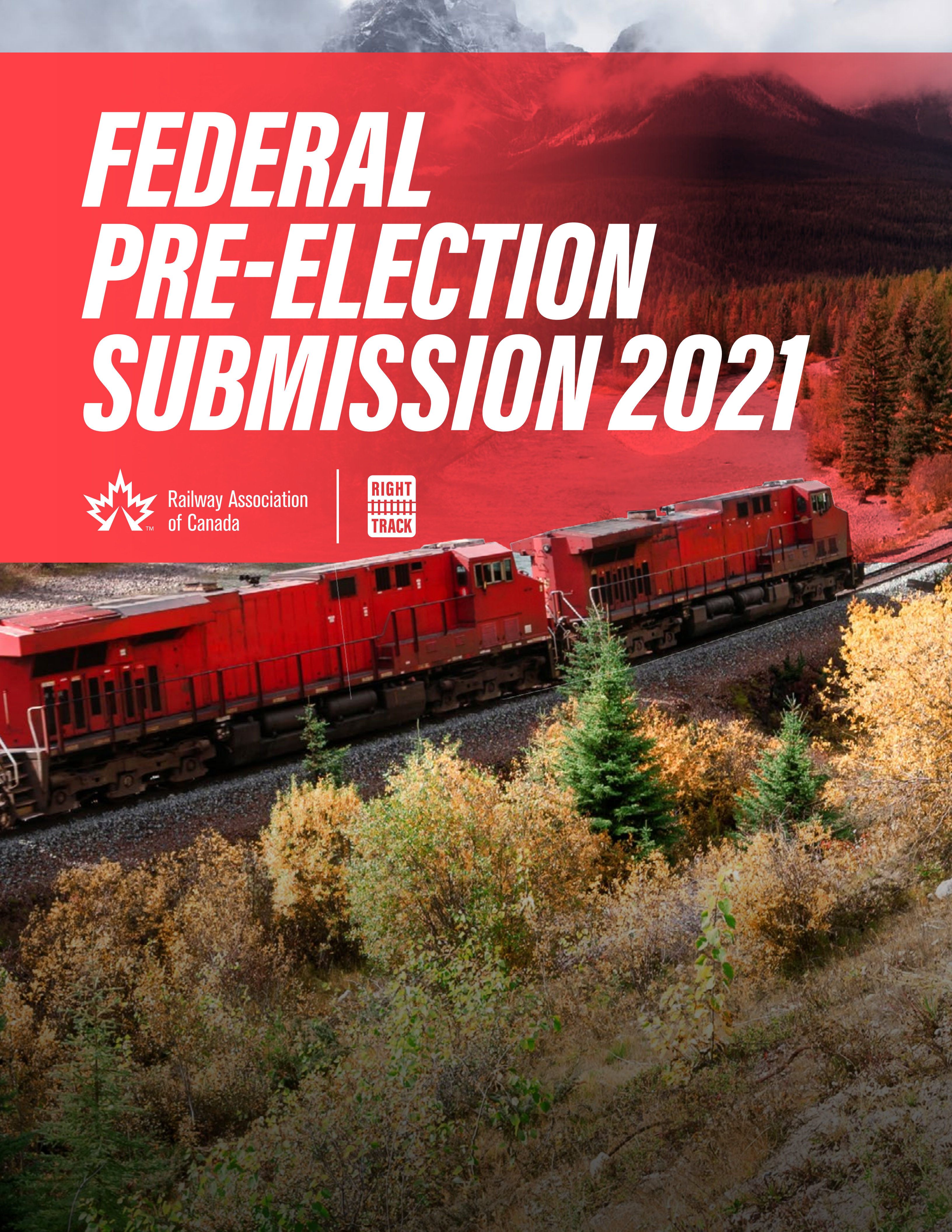


INTRODUCTION

Rail is the backbone of Canada's economy and, even in challenging times, Canadians continue to benefit from resilient freight and passenger railway services.

The Railway Association of Canada (RAC) and its rail member companies remain committed to establishing and maintaining best practices in safety, innovation, environmental stewardship and economic growth.

As evidenced throughout the global pandemic, railways are central to Canada's economy and interact with all facets of society: consumers, suppliers, shipping groups and communities from coast to coast to coast.

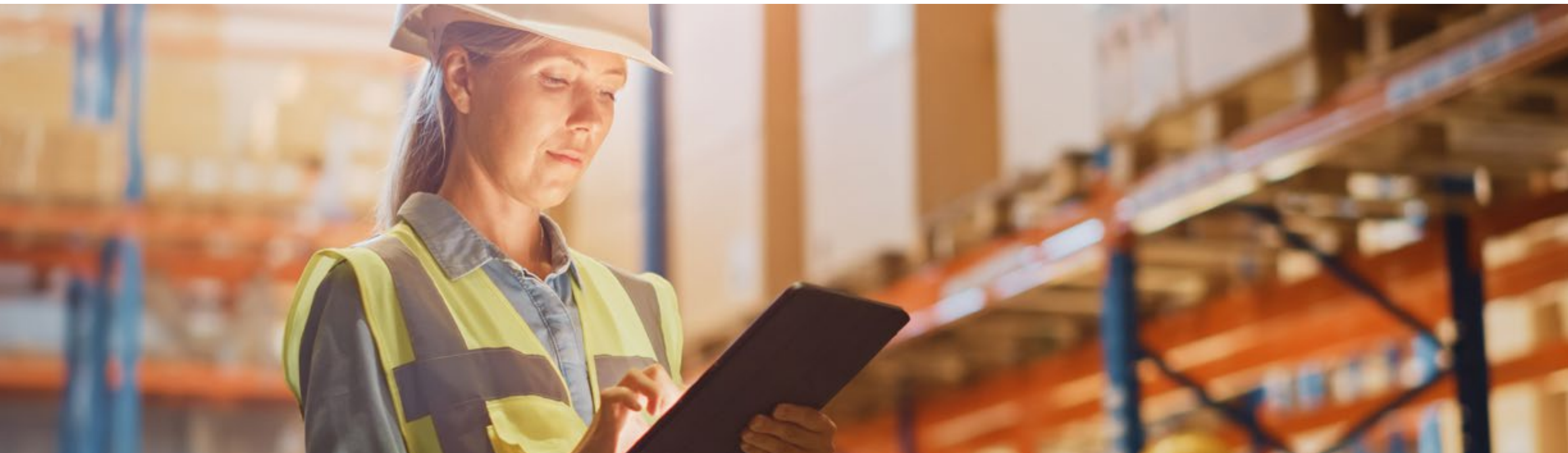
Freight railways, including Class-1s and shortlines, support economic prosperity by connecting local businesses to domestic and international markets and provide Canadians with the goods required to stay healthy and safe.

Passenger railways ensure that millions of Canadians, including essential workers, can safely travel by rail to and from work and remain connected with their family and friends in an environmentally friendly way.

And tourism railways are a critical component of Canada's vibrant tourism industry and its annual $100 billion economic footprint.[1] In every region of the country, tourism creates jobs and opportunities for Canada's middle class.

As the federal election campaign unfolds, and each of the political parties presents Canadians with their platform and a vision for the future of our country, the Railway Association of Canada and its members are seeking a commitment from the federal government to address the priorities outlined in this submission.

1 Tourism Industry Association of Canada, Travel & Tourism Fast Facts. (Click Here)



FACTS & FIGURES

Canada's rail network transports approximately $320 billion of Canadian-originated goods annually, with freight rail moving 50 per cent of exported goods. Each year, approximately 3,800 locomotives and 36,200 dedicated railway employees transport goods and people across nearly 44,000 kilometers of rail track across Canada and several points in the United States. These tracks require maintenance and upkeep to ensure efficient deliveries, as well as the safety of rail employees and the communities in which they operate.

Rail is one of Canada's most capital-intensive industries. Canadian railways are vertically integrated, including ownership of the track, real estate, and locomotives and rolling stock, which illustrates the need for significant investments. On average, Canadian railways invest between 20 and 25 per cent of their own revenues back into their networks each year — more than $33 billion in Canada alone since 1999. These significant annual investments into rail infrastructure, support the strong and growing demand for Canadian products and supports the fluidity of getting Canadian products to global markets.

The railway industry contributed a total of $17.6 billion to Canada's real GDP in 2018 and sustained 182,000 jobs through its economic footprint. Through its operations and investments, the rail industry helped lift incomes in Canada by $10.1 billion and generated a combined $7.2 billion in revenues for the federal and provincial governments. It is also worth noting that, on a GDP per worker basis, the rail industry grew 53.9% over the 2009-2018 period, compared with the industrial average of just 8.5%.

Canada's railway industry is also doing its part to help reduce greenhouse gas (GHG) emissions, while supporting the economy and enabling trade. Railways are among the lowest industrial emitters in Canada, accounting for just 1% of GHG emissions and only 3.5% of transportation sector emissions.[2] Since 1990, freight railways have reduced their GHG intensity by more than 40%, while experiencing a 95% increase in workload, and intercity passenger railway emissions intensity has improved by 37%, while ridership has increased by 26%.

Freight rail is four to five times more fuel efficient than truck, while passenger rail is three times more fuel efficient than the average car. For instance, just one locomotive can haul a tonne of goods more than 215 kilometers on a single litre of fuel, while a single freight train can remove

2 Canada's 2021 National Inventory Report, Part 3, 12 April 2021. (Click Here)

more than 300 trucks from Canada's roadways. Similarly, each passenger train replaces dozens of cars, reducing emissions, and improving transit time for commuters.

The Pan-Canadian Framework on Clean Growth and Climate Change and Transport Canada's Transportation 2030 both highlight the value and importance of moving more goods and people by rail.[3] In fact, shifting just 10% of truck traffic to rail would reduce emissions by 4.1 Megatonnes (Mt) of CO_2e per year. By taking vehicles off the road, not only are railways helping reduce environmental impacts; trains are also helping limit the degradation of publicly funded infrastructure.

RAC and its members assert that investments into the rail-based supply chain can generate long-term value for Canada and ensure that Canadians continue to benefit from resilient freight and passenger railway services.Priorities & Recommendations

3 Pan-Canadian Framework on Clean Growth and Climate Change, page 18. (Click Here)
Transportation 2030: Green and Innovative Transportation. (Click Here)

APPROXIMATELY $320 BILLION OF CANADIAN-ORIGINATED GOODS TRANSPORTED ANNUALLY

RAILWAYS ACCOUNT FOR JUST 1% OF GHG EMISSIONS IN CANADA

APPROXIMATELY 44,000 KILOMETERS OF RAIL TRACK ACROSS CANADA AND THE UNITED STATES

FREIGHT RAIL IS FOUR TO FIVE TIMES MORE FUEL EFFICIENT THAN TRUCK

SHIFTING JUST 10% OF TRUCK TRAFFIC TO RAIL WOULD REDUCE EMISSIONS BY 4.7 MT OF CO_2E PER YEAR

PRIORITIES & RECOMMENDATIONS

#1 – ENHANCING RAIL SAFETY

Over the years, the Canadian railway industry has developed a strong safety record thanks to substantial investments made by rail operators. Since 1999, Canada's railways have invested more than $33 billion to ensure the safety and efficiency of their networks, and they remain fully committed to fostering a robust safety culture.

RAC and its members work in close partnership with Transport Canada and other government partners to make rail transport as safe as possible for all Canadians. We look forward to continuing to build and strengthen these relationships in the years ahead.

Railways, unlike some other modes of transportation, bear the infrastructure costs of continually investing in the research, implementation and maintenance of all safety infrastructure projects. However, because rail safety is a shared responsibly, the federal government must continue to invest in projects that keep Canadians safe.

For example, railway companies and public and private authorities share the responsibility for managing safety at federally regulated grade crossings. They must work together to make sure that grade crossings meet the requirements found in the *Regulations and the associated Grade Crossing Standards* for everyone's safety. As such, RAC members are calling on the federal government to increase available funding under the *Railway Safety Act* for eligible costs related to improving and closing crossings.

> **Recommendation:** Commit to boosting federal rail safety infrastructure spending, including the Rail Safety Improvement Program (RSIP), in order to further drive innovation and technology in the sector, thus ensuring that the movement of people and freight by rail in the future will continue to be safe, green and responsive to customer needs.

#2 – ENHANCING INTERCOMMUNITY PASSENGER RAIL SERVICE IN CANADA

Passenger railways ensure that millions of Canadians can travel by rail to and from work and remain connected with their family and friends in an environmentally friendly way.

Investing in improving passenger rail services will not only help spur economic growth, but also enhance accessibility, boost tourism, and reduce reliance on automobiles. Furthermore, federal investment in intercommunity rail, in collaboration with the Provinces, will enhance business opportunities, help connect communities and provide a gateway to prospective residents, students and businesses to the local economy.

With these benefits in mind, RAC is encouraging federal parties to commit to investing VIA Rail's High Frequency Rail (HFR) project as soon as possible, as it represents a key infrastructure initiative that will contribute to a more sustainable economic recovery for Canada.

By implementing (HFR) and improving services within its entire network, VIA will better connect Canadians in the most populous region of the country by increasing train frequencies, shortening trip times, and providing more reliable service.

> **Recommendation:** Commit to investing in improvements to intercommunity passenger rail service in Canada, including VIA Rail's HFR project, in order to create employment, stimulate sustainable growth and leverage the environmental benefits of moving more passengers by rail.

#3 – INVESTING IN PUBLIC TRANSIT AND COMMUTER RAIL

A recent commitment by the Government of Canada to cost-match approximately $1.8 billion in provincial and territorial investments to support any additional contributions toward public transit was welcome news to commuter rail operators across Canada who have seen a catastrophic drop in ridership and revenues in recent months.

At the height of the COVID-19 pandemic, ridership on commuter railways was down by as much as 85 per cent,[4] and operators were forced to reduce service and initiate layoffs. The recovery phase will require commuter rail operators to find innovative and creative ways to safely serve ridership while swiftly reacting to fluctuating demand.

Commuter railways and municipalities continue to face huge financial challenges and require additional government support to fund the operating and capital costs necessary to increase efficiency and maintain service.

Passenger rail companies large and small across the country are eager to tap into the funds available through The Canada Infrastructure Bank (CIB), given that the projects they are proposing are very much in line with the CIB's core mandate of building new infrastructure that will accelerate Canada's transition to a low carbon economy and strengthen economic growth.

> **Recommendation:** Commit to providing additional capital funding to passenger rail companies, including the Canada Infrastructure Bank, to ensure transit is part of Canada's economic recovery. This investment in shovel-worthy infrastructure projects support will help restore jobs, connect people, and keep transit central to a lower-carbon economy and more sustainable urban life.

#4 – INCREASING SUPPORT FOR SHORTLINE RAILWAYS IN CANADA

Shortline railways perform a vital role in Canada's rail-based supply chain, providing crucial first-mile, last-mile service that connects customers and rural economies to the world. In fact, approximately 20 per cent of carloads in Canada originate on a shortline railway.

Statutory reviews of the Canada Transportation Act and Railway Safety Act underscored a demonstrable role for Government to support the shortline railway sector.

4 Railway Association of Canada analysis based on data from Statistics Canada's Monthly Passenger Bus and Urban Transit Survey.

To date, neither the New Building Canada Plan nor the National Trade Corridor Fund (NTCF) have been a significant source of funding for shortline railways. Conversely, shortline railways in the U.S. continue to enjoy multiple federal and state-level funding programs that include grants, tax credits and low-interest loans.[5]

As such, RAC believes the federal government can and should do more to support shortline railways and their customers.

> **Recommendation:** Commit to creating a capital funding program of $365 million over 6 years (effective in 2021 and ending in 2026) to support shortline infrastructure investment, as well as expanding the eligibility criteria for NTCF funding, so that more shortline railways can move ahead with crucial infrastructure upgrades.

#5 – TAX POLICY AND CANADIAN FREIGHT RAILWAY COMPETITIVENESS

Canada needs a competitive tax framework to further incent railway infrastructure investment to ensure that the sector can maintain a robust supply chain and facilitate future volume growth.

Recent U.S. tax reforms have altered the competitive landscape in North America. Tax changes in Canada are required to ensure that railways remain competitive and can continue to invest at a rate comparable to previous years and proportionate to their American competitors.

With a lower after-tax-cost in the U.S., Canadian railways and customers, who invest in their own rail infrastructure, are at a significant tax disadvantage to U.S. railways. If this tax imbalance persists, important economic opportunities and investments in Canada may be lost.

The following tables highlight: (1) the differences between the Canadian and U.S. tax regimes as they relate to railway capital cost allowance (CCA) spending and (2) the tax treatment of railways versus other capital-intensive industries in Canada.

Table 1: Canadian vs. U.S. Tax Depreciation Regimes for Rail*

Canadian Railways				U.S Railways			
	Class Rates	CAA $ Claimed	% Claimed		Class Rates	CAA $ Claimed	% Claimed
Track Infrastructure							
Year 1	10%	$15	15%	Year 1	100%	$100	100%
Total by year 4		$38	38%	Total by year 4		$100	100%
Rail Yard Facility (Building)							
Year 1	4%	$6	6%	Year 1	100%	$100	100%
Total by year 4		$17	17%	Total by year 4		$100	100%
Railcars							
Year 1	15%	$23	22.5%	Year 1	100%	$100	100%
Total by year 4		$52	52%	Total by year 4		$100	100%
Locomotives							
Year 1	30%	$45	45%	Year 1	100%	$100	100%
Total by year 4		$81	81%	Total by year 4		$100	100%

*For $100 of capital spending

5 CPCS, Review of Canadian Short Line Funding Needs and Opportunities. (Click Here)

Table 2: Railways vs. other industries in Canada*

Canadian Railways			Manufacturing and Processing ("M&P") Industry			Trucking Industry		
	Class Rates	CAA % Claimed		Class Rates	% Claimed		Class Rates	% Claimed
Track Infrastructure			**M&P Plant**			**N/A****		
Year 1	10%	15%	Year 1	10%	15%			
Total by year 4		38%	Total by year 4		38%			
Railcars			**Specific M&P Building (Kiln, tank, or vat)**			**Trailers**		
Year 1	15%	22.5%	Year 1	100%	100&	Year 1	30%	45%
Total by year 4		52%	Total by year 4		100%	Total by year 4		81%
Locomotives			**M&P Equipment**			**Hauling Trucks**		
Year 1	30%	45%	Year 1	100%	100%	Year 1	40%	60%
Total by year 4		81%	Total by year 4		100%	Total by year 4		91%

*For $100 of capital spending **As infrastructure used to move freight (inter-provincial roads) for the trucking industry is already fully funded by the Government.

Enhancing tax policy and freight railway competitiveness would not only help support the needs of the Canadian economy and create jobs, but also help reduce the costs associated with rail safety requirements such as grade crossing upgrades and ensure that an appropriate fiscal framework is in place to move more goods and people by rail in an environmentally friendly way.

> **Recommendation:** Commit to reviewing and revising detrimental tax policies and implementing accelerated depreciation measures. This includes allowing Canadian railway companies to deduct the full amount of capital expenditures immediately, so they can continue to make the investments required to maintain and grow a resilient railway network and compete on a fair and level playing field with their American counterparts.

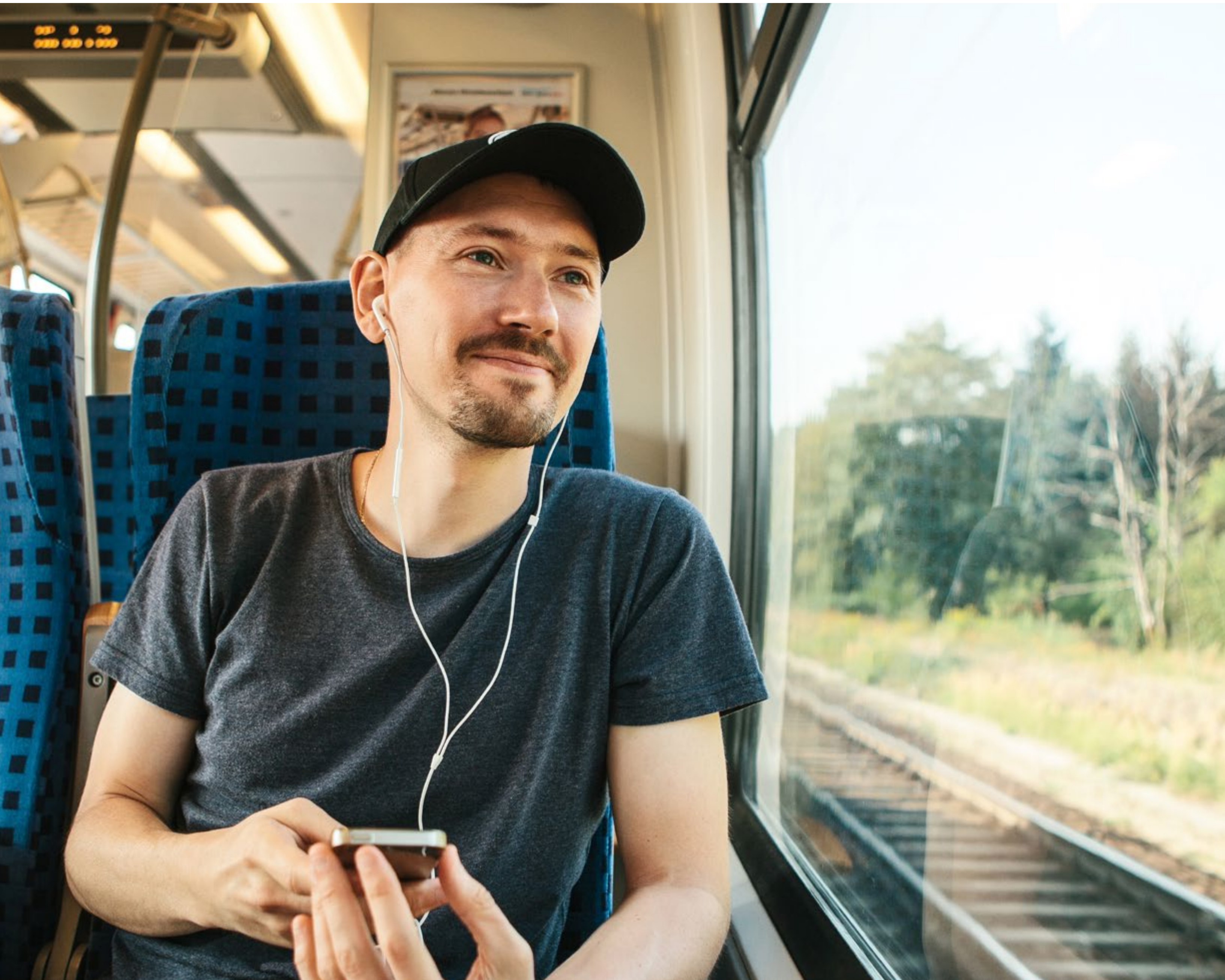
#6 – REINVIGORATING CANADA'S TOURISM RAILWAYS

Tourism railways are a critical component of Canada's vibrant tourism industry and its annual $100 billion economic footprint.[6] Moving tourists by rail drives local and regional economic activity by creating demand for local service providers such as hotels, restaurants, retail and excursion companies.

The global pandemic has had a devastating impact on Canada's tourism railways. Seasonal tourism rail operators across the country have been forced to drastically reduce their services, suspend capital expenditures, lay off employees and in some cases cancel their operations entirely over the past year and a half. As such, more needs to be done to support tourism railways so that they can resume operations and serve Canadians and international customers now and into the future.

6 Tourism Industry Association of Canada, Travel & Tourism Fast Facts. (Click Here)

Recommendation: Commit to ensuring that tourism rail operators have immediate access to capital and create a task force to develop a long-term recovery plan that rebuilds confidence and repositions Canada as an attractive tourist destination for international visitors. Furthermore, at a time when international travel remains restricted, the RAC recommends increasing efforts to promote domestic tourism, in order to drive economic growth and job creation in all regions of the country.



SUMMARY

As political parties propose and debate ways of restarting the Canadian economy in the wake of the global pandemic, it is clear that investments into the rail-based supply chain will generate long-term value for Canada and ensure that Canadians continue to benefit from resilient freight and passenger railway services.

Canada's rail companies are committed to developing and maintaining industry best practices in safety, innovation, reducing emissions and economic growth.

Railroaders' resiliency in these deeply uncertain times has and will continue help our country recover from the pandemic's impacts more quickly, and increased capacity will help get more businesses reopened and more people back to work.

RAC members already have the people power to deliver as we always do — safely and reliably, in an environmentally friendly way. We view this as a shared approach, which also involves coordination will all levels of government, as well as alignment between private and public partners.

With the right federal supports, including your party's commitment to implementing the recommendations included in this submission, Canada's railways will be well equipped to carry an even greater load in our country's post-pandemic economic recovery.

CONTACT

Thank you for your time and consideration. Comments and questions can be directed to Gregory Kolz, Director, Government Relations at 613-564-8105 / gkolz@railcan.ca.

MORE ON THE RAILWAY ASSOCIATION OF CANADA:

The Railway Association of Canada (RAC) was established in 1917 and represents close to 60 freight and passenger railway companies. RAC also counts a growing number of industrial railways and railway supply companies in its associate membership. As part of the fifth largest rail network in the world, RAC members are the backbone of Canada's transportation system. We encourage you to visit: **https://www.railcan.ca**